FINRA *Regulatory Notice* 19-12 (Block Pilot) – Comment Summary

FINRA published *Regulatory Notice* 19-12 on April 12, 2019, to request comment on a proposed pilot program to study changes to corporate bond block trade dissemination based on a recommendation from the Securities and Exchange Commission's (SEC) Fixed Income Market Structure Advisory Committee (FIMSAC or Committee). Specifically, the proposed pilot design was intended to study two primary changes recommended by the FIMSAC: an increase to the current dissemination caps for corporate bond trades, and delayed dissemination of any information about trades above the proposed dissemination caps for 48 hours. The proposed pilot included several modifications from the FIMSAC recommendation, most notably the addition of a control group.

FINRA received 31 comments on the *Notice*. In general, 25 commenters opposed pilot, five supported it, and one offered an alternative without expressing a particular view on the proposal. A high-level summary of the points raised in the comment letters along with a tally of the commenters that made each point is provided below.

Summary Tally and Key Points Raised

- 25 commenters opposed the 48-hour dissemination delay on a number of grounds, including that it would discriminate against all but the largest firms, result in information asymmetry, cause market distortions, increase systemic risk, negatively impact bond valuation services, harm the markets for derivative products, and create compliance challenges. These commenters included:
  - 11 buy-side firms or groups (MFA, Federated, Vanguard, San Bernardino County, Pension Boards United Church of Christ, City of Ontario, Dimensional, Healthy Markets, AQR, T. Rowe Price, and CFA Institute).
  - 8 sell-side/trading firms or groups (Citadel, Jane Street, Sumridge Partners, Descartes Trading, BDA, FIA PTG, Millenium Advisors, Flow Traders).
  - 4 academics (Haoxiang Zhu, Larry Harris, Spatt et al., and Angel).
  - One trading platform (MarketAxess, though it expressed some support for a delay for a smaller subset of trades in less liquid bonds) and one data vendor (BondWave).
- 5 commenters supported the 48-hour dissemination delay on the grounds that it was needed to improve liquidity. These commenters included:
  - Three buy-side firms (PIMCO, Wellington Management, BlackRock).
  - Two sell-side firms or groups (SIFMA, Credit Suisse, though Credit Suisse only for a delay for a smaller subset of trades that exceed "Super Block" size thresholds).

- 14 commenters said there is <u>no need for the pilot</u> because there is not sufficient evidence of a market problem or because existing data should be studied further before introducing changes to dissemination.
    - San Bernardino County, Harris, Zhu, Angel, Healthy Markets, AQR, Dimensional, Jane Street, MFA, Citadel, Vanguard, FIA PTG, BDA, and Flow Traders.
- 7 commenters supported <u>higher dissemination caps</u> (with or without a pilot).
    - Healthy Markets, AQR, Dimensional, MFA, Vanguard, Millenium Advisors, and CFA Institute.
- 6 commenters supported <u>lower dissemination caps</u>, as an alternative form of the pilot study to protect dealer liquidity without a dissemination delay.
    - Harris, Zhu, Spatt, Angel, BDA, and BondCliQ.
- 4 commenters supported a <u>shorter time to disseminate uncapped historic trade data</u>.
    - Healthy Markets, BlackRock, AQR, and CFA Institute.
- 8 commenters expressed general <u>support for FINRA's proposed test design</u>, particularly the inclusion of a control group (should the pilot move forward).
    - Harris, Zhu, Wellington Management, AQR, MFA, Citadel, PIMCO, and Spatt.
- 7 commenters felt the proposed <u>pilot design was too complex</u> or otherwise suggested adjustments to the proposed test groups.
    - Credit Suisse, MarketAxess, SIFMA, BlackRock, Citadel, MFA, and BDA.